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SUBJECT: ENERGY SECRETARY BODMAN'S MEETING WITH NDRC
CHAIRMAN MA KAI AND MOST MINISTER XU GUANHUA; U.S. - CHINA
ENERGY EFFICIENCY AND RENEWABLE ENERGY PROTOCOL SIGNED

11. (SBU) Summary. China views the sustainability of its economic growth to rest on its domestic economy, with trade only recently becoming a more significant factor. Future cooperation on renewable energy, energy efficiency, and nuclear power will be the focus of post-Strategic Economic Dialogue (SED) I activities, with possible integration of SED action items with activities under the DOE ' National Development and Reform Commission (NDRC) Energy Policy Dialogue (EPD). NDRC Chairman MA Kai wants both nations to focus on specific energy efficiency and alternative energy technologies. He views technology transfer in those areas as having great potential toward reducing the trade imbalance between the two countries, thus not posing a threat to U.S. national security. MA proposes to organize a meeting in 2007 to exchange views on specific mature energy technology transfers in the areas of environmental protection and energy savings, with a focus on producing tangible results.

Ministry of Science and Technology (MOST) Minister Xu Guanhua sees a link between the action agenda developed during the Joint Commission Meeting (JCM) and the post-SED agenda, noting the common interests of the United States and China on clean energy and environmental technology. Xu would like to see expanded cooperation in those areas with a forum for technical discussions in a smaller setting. China currently has 9 million cars on the road. By 2030, China will have 100 million vehicles, thus the pressure on the environment and the demand for fuel will be great Xu noted. MOST is interested in knowing more about United States hydrogen policy.

Secretary Bodman and MOST Minister Xu executed the newly

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negotiated 'Protocol between the Department of Energy of the United States of America and the Ministry of Science and Technology of the People's Republic of China for Cooperation in the Fields of Energy Efficiency and Renewable Energy Technology and Development and Utilization.' End Summary.

12. (SBU) The lunch meeting among Secretary of Energy Bodman, NDRC Chairman Ma Kai, and Minister Xu Guanhua, Ministry of Science and Technology convened at the Great Hall of the People on Friday, December 15, 2006 immediately after the last formal session of the SED. NDRC Chairman Ma began the lunch meeting by soliciting Secretary Bodman's views of the Dialogue. The Secretary termed the SED effective and indicative of an increased level of communication and friendship between the two countries.

Differences in U.S.-China SED Presentations

13. (SBU) One noticeable difference was the conclusions reached from the statistics each country used during the SED presentations, Secretary Bodman stated. The Secretary remarked that Chairman MA emphasized the importance of China's domestic economy to sustain economic growth, while giving less importance to China's export economy. From the United States point of view, the Secretary observed, the focus of China's economy is on manufacturing for exports. However, he continued, the analytical focus in China's December 14 SED presentation seemed to reflect the reverse. The Secretary was therefore curious about the basis for the statistical analyses Chairman MA was using, as this was one of the few differences he noted during the SED. The Secretary based his remarks on statistics from the Energy

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Information Agency, and he wondered about the origin of the Chairman's analysis.

NDRC Chairman's Perspective

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14. (SBU) Chairman Ma stated that China's 1.3 billion population was too big a number for China to focus only on the world economy as a basis for sustainable economic growth. During most of the years in which the exports resulted in a trade surplus, the resulting surplus ranged between 1 ' 2% of China's total economy, he explained. It is only in the last few years that the export surplus has become a significant factor, he concluded. He stated that he used statistics from the energy statistical data published by British Petroleum and the International Energy Agency, both well respected sources of energy statistics. While the use of statistical data to inform analysis is an issue worth exploring for further mutual understanding, the Secretary stressed that the past is less important, and it

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is more fruitful to focus on what we can do in the future.

SED Follow-Up: Energy, Environment and Sustainable Development

15. (SBU) As a follow-up to the additional SED presentations on December 15, Chairman MA asked the Secretary's views of the proposals made. Secretary Bodman

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responded that the ideas for future cooperation were good, and that the first step was to have the technical people responsible for working on renewable energy, energy efficiency, and nuclear power meet and share views on the status of what each country is doing. Noting that in some areas China is more advanced than the United States, the technical exchange would permit each country to benefit from the other. DOE Assistant Secretary for Policy and International Affairs Karen Harbert opined that the Energy

Policy Dialogue (EPD) is a good place for the initiatives to reside. Harbert also stated that many of these areas were identified as priorities during the second EPD, which China recently hosted, i.e., energy efficiency, clean coal technologies, finding ways to assist China with energy conservation strategies and tools. Secretary Bodman took the occasion to comment on his regard for the great technological expertise that resides in China, and his desire not to have the United States preach to China, but to listen and understand where the challenges for both countries are after the experts have had an opportunity to exchange views.

Clean Energy and Energy Efficiency Cooperation - Bringing
Balance to Bilateral Trade without Threatening U.S.
National Security

16. (SBU) Chairman MA agreed with Secretary Bodman's approach, but stated his desire to focus on specific projects that the two countries can jointly develop. He stated that, unlike China's one-time purchases of particular United States goods such as airplanes, United States clean, energy efficient, and alternative energy technologies have great potential toward reducing the trade imbalance between the two countries. Cooperation in these areas, does not pose a threat to the national security of the United States. Therefore, MA proposed to organize a meeting in 2007 to exchange views on specific mature energy technology transfers in the areas of environmental protection and energy savings. The meeting would involve other agencies and sectors working in these areas, such as MOST, with whom DOE already has close cooperation and Chinese industry. NDRC is working on ten major energy conservation initiatives, MA proposes that the United States and China select two or three projects every year as the subject of their cooperation, so that the cooperation does not stop when the policy dialogue ends, but will continue to achieve substantive results. NDRC Vice Chairman ZHANG Xiaoqiang suggested that the energy conservation project involve the 1000 largest, energy-consuming enterprises in China and similar United States companies.

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MOST Minister XU links SED next steps to JCM next steps

17. (SBU) MOST Minister XU Guanhua began his session of the meeting by recalling the October, 2006 visit of Dr. John H. Marlburger III, Science Advisor to the President of the United States and Director of the Office of Science and Technology Policy, during the China-United States Joint Commission Meeting on Scientific and Technical Cooperation (JCM). The JCM resulted in a resolution to expand cooperation in the areas of clean energy and environmental technology, XU stated. Affirming the common interest between the two countries in these areas, Minister XU noted the great opportunities and challenges that exist for both sides. He too would like to see the cooperation expanded; he thinks existing mechanisms for the cooperation are available; and he would like to see a forum for technical discussions in a smaller setting.

18. (SBU) Secretary Bodman once again noted the advantages of further technical discussions and the importance of engaging the people who are actually doing the work. He stated that A/S Harbert would be in charge of organizing the United States side of the cooperation. A/S Harbert noted the importance of involving the private sector, noting that record levels of venture capital is being invested in energy saving technology in the United States. She would like to explore private sector participation in the cooperation.

Energy Solution for Transportation Needs Tops MOST's
Technology Agenda

¶9. (SBU) MOST is engaged in many international automobile technology cooperation projects with a view to future commercialization. Minister Xu stated that China currently has 9 million cars on the road. By 2030, there will be 100 million vehicles, thus the pressure on the environment and the demand for fuel will be great. Secretary Bodman agreed that the energy demand for the transportation sector was a major concern for the United States. XU mentioned hydrogen as a possible alternative fuel, and he would like to know more about the United States policy for hydrogen and how to encourage people to use it. Bodman stated that the United States has not figured out what the best solution is, but it that it appeared as if biodiesel fuels are showing promise.

Signing Ceremony for the U.S. - China Energy Efficiency and
Renewable Energy Protocol

¶10. (SBU) Immediately following the lunch, Secretary Bodman and MOST Minister XU executed the newly negotiated 'Protocol between the Department of Energy of the United States of America and the Ministry of Science and Technology of the People's Republic of China for Cooperation in the Fields of Energy Efficiency and Renewable Energy Technology and Development and Utilization':

¶11. (U) The text of the Protocol follows:

Begin Text:

PROTOCOL BETWEEN THE DEPARTMENT OF ENERGY OF THE UNITED
STATES OF AMERICA AND THE MINISTRY OF SCIENCE AND
TECHNOLOGY OF THE PEOPLE'S REPUBLIC OF CHINA FOR
COOPERATION IN THE FIELDS OF ENERGY EFFICIENCY AND
RENEWABLE ENERGY TECHNOLOGY DEVELOPMENT AND UTILIZATION

The Department of Energy of the United States of America
and the Ministry of Science and Technology of the People's
Republic of China ('the Parties'):

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Considering the cooperation between the countries in
science and technological development pursuant to the
Agreement between the Government of the United States of
America and the Government of the People's Republic of
China on Cooperation in Science and Technology signed on
January 31, 1979, as amended and extended ('Umbrella
Agreement');

Noting expiration of the Protocol between the Department of
Energy of the United States of America and the State
Science and Technology Commission of the People's Republic
of China for Cooperation in the Fields of Energy Efficiency
and Renewable Energy Technology Development and Utilization
signed February 23, 1995, as extended and amended ('1995
Protocol');

Desiring to continue the cooperation undertaken under the
now-expired 1995 Protocol in the fields of energy
efficiency and renewable energy technology development and
utilization for the mutual benefit of each Party;
Recognizing that there is a mutual interest in promoting
the acceleration of scientific and technological research
and development in the fields of energy efficiency and
renewable energy technology, and the commercialization of
technologies developed through such activities; and

Believing that such research and development will
accelerate the supplementation of fossil fuels with clean

energy sources and promote economic and trade cooperation;

HAVE AGREED AS FOLLOWS:

ARTICLE 1
SCOPE AND OBJECTIVE

1A. This Protocol is subject to the Umbrella Agreement. In the event of any conflict between the terms and conditions of the Umbrella Agreement and this Protocol, the terms and conditions of the Umbrella Agreement will govern.

1B. The objective of this Protocol is to promote technological cooperation between the Parties in the fields of energy efficiency and renewable energy technology development and utilization.

ARTICLE 2
AREAS OF COOPERATION

1A. Cooperation under this Protocol in the field of energy efficiency technology may take place in the following areas:

- 11. Energy conservation technology in construction;
- 12. Energy conservation technology in transportation and technology for alternative automobile fuel;
- 13. Energy conservation technology in industries; and
- 14. Such other areas in the field of energy efficiency technology as may be mutually agreed to, in advance, in writing, by the Parties.

1B. Cooperation under this Protocol in the field of renewable energy may include the following areas:

- 11. Solar energy;
- 12. Wind energy;
- 13. Biomass energy;
- 14. Geothermal energy;
- 15. Ocean energy;
- 16. Hydrogen energy; and
- 17. Such other areas in the field of renewable energy as may be mutually agreed, in advance, in writing, by the Parties.

ARTICLE 3

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FORMS OF COOPERATION

Cooperative activities undertaken pursuant to this Protocol may include the following:

1A. Exchange of technical information and data on science and technical activities and methods and results of research and development;

1B. Exchange visits concerning the design and implementation of national renewable energy technologies and energy efficiency technology, including operational procedures, management and oversight, policy analysis, technology transfer and commercialization;

1C. Organization of, and participation in, technological demonstrations and seminars and other meetings on specific mutually agreed topics;

1D. Exchanges of information concerning commercialization and market potentials;

1E. Joint projects in which the Parties agree to share the work and costs; and

1F. Such other cooperation as may be agreed by the Parties, in advance, in writing.

ARTICLE 4
PROJECT ANNEX

The Parties shall execute a Project Annex for each joint project undertaken under Article 3.E. of this Protocol. Each Project Annex, which shall be subject to this Protocol, shall contain provisions covering technical scope, exchange of proprietary information, management, total costs, cost sharing and schedule, as appropriate.

ARTICLE 5
MANAGEMENT

1A. Each Party shall name one Principal Coordinator to supervise activities under this Protocol. The Principal Coordinators shall, by correspondence, consult with each other at least annually to evaluate the status of cooperation under this Protocol. This evaluation will include review of the achievements, problems, and effectiveness of activities under this Protocol. The Principal Coordinators also will consider future program opportunities with a view to maximizing the mutual benefits of cooperation. When necessary, the Principal Coordinators shall meet to consider matters related to the implementation of this Protocol. Such meetings shall be held alternately in the United States of America and the People's Republic of China.

1B. Subject to the prior approval of the Parties, the Principal Coordinators shall appoint Project Coordinators to manage specific cooperative activities initiated under this Protocol and to establish and maintain working contacts at the staff level.

ARTICLE 6
ADDITIONAL ORGANIZATIONS

The Parties may invite additional organizations within their own countries to participate, at those organizations' own expense, and subject to such terms and conditions as the Parties may specify, in cooperative activities under this Protocol. Such organizations may become signatories to annexes to this Protocol upon agreement of both Parties in writing.

ARTICLE 7
ASSIGNMENT OF STAFF

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The following provisions shall apply to assignment of staff:

1A. Each Party shall ensure that qualified staff is selected for assignment to the other Party. Each assignment of staff shall be the subject of an exchange of letters between the participating institutions.

1B. Each Party shall be responsible for its staff's salaries, insurance, and allowances, and for the travel and living expenses of its staff while on assignment to the receiving Party unless otherwise agreed, in advance, in writing, by the Parties.

1C. The receiving Party shall provide all necessary assistance to the visiting staff and their families as regards administrative formalities, such as making travel arrangements.

1D. The sending Party shall ensure that its staff conforms to the general and special rules of work and safety regulations in force at the establishment of the receiving Party, unless otherwise agreed in a separate assignment agreement.

ARTICLE 8
INTELLECTUAL PROPERTY AND INFORMATION

1A. Dissemination, use and protection of information used or generated in the activities conducted pursuant to this Protocol and its annexes, and the allocation of rights in intellectual property arising in the course of such activities shall be governed by the provisions set forth in Annex I to the Umbrella Agreement.

1B. Any scientific and technical information provided by one Party to the other Party pursuant to this Protocol shall be accurate to the best knowledge and belief of the providing Party; however, neither Party warrants the suitability of the information for any particular use or application by the receiving Party or any third party.

ARTICLE 9
AVAILABLE INFORMATION

Each Party shall make available to the other technical information that is: (1) relevant to or necessary for activities conducted under this Protocol; and (2) either in the Party's possession or available to it and which it has the right to disclose.

ARTICLE 10
SECURITY OBLIGATION

Both Parties agree that no information or equipment requiring protection in the interest of national security, defense or foreign relations and classified in accordance with its applicable national laws, regulations or directives shall be provided under this Protocol. In the event that information or equipment which is known or believed to require such protection is identified by a Party in the course of cooperative activities pursuant to this Protocol, it shall be brought immediately to the attention of the appropriate officials of the other Party. The Parties shall consult to identify and implement appropriate security measures for such information and equipment, to be agreed upon by the Parties in writing. The Parties shall, if appropriate, amend this Protocol to incorporate such security measures.

ARTICLE 11
COSTS

Unless otherwise agreed in writing, costs resulting from activities under this Protocol shall be the responsibility of the Party that incurs them.

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ARTICLE 12
APPLICABLE LAW AND AVAILABILITY OF RESOURCES

Each Party shall conduct the activities provided for in this Protocol subject to the applicable laws and regulations of its respective country, and shall provide resources subject to the availability of its personnel and appropriated funds.

ARTICLE 13
DISPUTES

Any dispute concerning the interpretation or application of this Protocol shall be settled by consultation of the Parties.

ARTICLE 14
GENERAL PROVISIONS

1A. This Protocol shall enter into force upon signature and, subject to paragraph D of this Article, shall remain in force for five (5) years.

11B. This Protocol may be amended or extended by written agreement of the Parties.

11C. The Parties may agree to continue until completion all activities initiated but not completed at the expiration of this Protocol.

11D. Either Party may terminate this Protocol at any time upon six (6) months advance written notice to the other Party.

DONE at Beijing, this 15th day of December, 2006, in duplicate, in the English and Chinese languages, each text being equally authentic.

FOR THE DEPARTMENT OF ENERGY FOR THE MINISTRY OF OF
THE UNITED STATES OF AMERICA: SCIENCE AND TECHNOLOGY
 OF THE PEOPLE'S REPUBLIC
 OF CHINA:

End of Protocol Text.

PARTICIPANTS

112. (U) United States participants:

Samuel W. Bodman - Secretary of Energy
Karen Harbert - DOE Assistant Secretary for Policy and
International Affairs
Jeffrey Kupfer - DOE Secretary's Chief of Staff
Anne Womack Koulton - DOE Director of Public Affairs
Molly Williamson - DOE Secretary's Senior Foreign Policy
Advisor
Ben Getto - DOE Secretary's Senior Policy Advisor
Dr. Marco Di Capua - Executive Director, DOE China Office
Dr. Matthew Slaughter - Member, Council of Economic
Advisors

People's Republic of China participants:

National Development and Reform Commission -
Ma Kai - Chairman
Zhang Xiao Qiang - Vice Chairman
Zhao Xiao Ping - Director General, Energy Bureau
Madame Zhao Jia Rong - Director General, Department of
Energy Conservation and Environmental Protection

Ministry of Science and Technology -
Xu Guanhua - Minister
Jin Xiaoming - Director General, Department of
International Cooperation

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Xu Jing - Deputy Director General, Department of High and
New Technology Development and Industrialization
Yan Jin - Deputy Director General, Department of Social
Development
Li Xin - Programme Officer, Department of International
Cooperation

RANDT